Statement of Ms. Ellen Jewett, Vice President, Goldman, Sachs & Co.
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House Transportation and Infrastructure Committee
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Good morning, Chairman Mica and members of the Committee. My name is Ellen Jewett and I am a Vice President in the Municipal and Infrastructure Finance Group of Goldman, Sachs & Co. and I also manage our Transportation business. I appreciate the opportunity to testify before the Subcommittee today on "The Next Generation Air Transportation System Financing Options". The NGATS initiative is a worthwhile and necessary step towards securing our nation's future development in aviation and I am pleased to be a part of the discussion on how to properly fund it.

Historically, the Federal Aviation Administration has relied on approximately 80% of its funding from the Aviation Trust Fund, which is set to expire by this time next year. As the FAA embarks on its ambitious NGATS program as well as restructuring the Trust Fund, this is an optimal time to explore alternative funding sources.

There are three primary options that the FAA could evaluate to fund NGATS. On the traditional end of the spectrum, the FAA could borrow from the US Treasury which would provide the lowest cost of capital. However, from a capital markets perspective borrowing Treasuries is expensive in its lack of flexibility , as they can not be called or refinanced.

The debt capital markets offer another solution for the program's funding gap. In 2005, more than $450 billion of municipal bonds were issued with a total market size of $3.2 billion. Of the total issued last year, more than 60% were revenue bonds, or bonds that are backed by revenues of a project or asset as opposed to the taxing power of the government. This robust market provides an opportunity for issuers to issue debt backed by any type of revenue, including any user fee without recourse back to the governmental entities.

A particular structure that is widely used and ensures the highest security to a bondholder is a securitized revenue structure. Under this structure, the FAA or a conduit issuer levies a charge which is then passed through a special purpose entity and is irrevocably pledged to the bondholders.

How might this revenue securitization structure be applicable to the NGATS program? One example is through a securitization of FAA revenues or user fees. How the fee is levied – ticket tax, passenger levy, airline charge – is less important than whether it is a stable revenue stream. A portion of this charge can be irrevocably pledged to a special purpose vehicle that issues securities backed by the right and the collections of that passenger charge. The collections on that charge are used to pay principal, interest and other securitization costs.

As I have mentioned, the special purpose vehicle would remain legally remote from the FAA under this scenario. In order to ensure the involvement of all users of the system, a capital policy board would be set up to determine the scope of the capital financing plan and enact it on behalf of the FAA. It is envisioned that members from all interested parties – airlines, airports, labor – would be represented along with members of the FAA. This board would ultimately determine the size and strategies governing the financing and set up rules to ensure accountability.

There are a number of benefits to this financing structure. The most important to note is that neither the FAA nor the US Government is obligated under this structure to pay anything other than transferring the pledged revenue collections. Should the revenue collections fall short of necessary debt payments, there is no recourse back to the FAA or the government. Additionally, there is no FAA operational risk under this structure. Thus, the FAA is able to transfer its risk and collect money up front to fund a significant investment in aviation infrastructure.

A major consideration of any sort of financing in the capital markets is the public policy implications. Under the proposed securitization structure, the FAA is able to separate the public policy determination of financing needs and capital plan from the execution of the financing. By granting a legally separate oversight board the authority to issue the securities, the board has the right to review and/or reject the proposed financing plan. Thus, users of the system that will be impacted by the financing decisions, namely the airlines which will have to pass the user charges through to passengers in the ticket prices, will be able to have a direct role in determining if such a financing is necessary.

The third and more radical alternative to solve the funding gap would be to explore the burgeoning public-private partnership market. With a large demand for projects that produce long-term, steady revenue streams (and thus, long-term, steady returns) from a wide variety of pension funds, insurance companies and private equity funds, this market could provide an additional or alternative source of funds for the FAA.

It is not unusual for governments to tap private investors for funding assistance. In fact, there are numerous examples of the Army or Navy leasing all of the housing on its bases to private developers. In the United Kingdom and Canada public-private partnerships form the basis for management of the air traffic control systems.

The FAA has already enacted such a program under the Pilot Privatization Act whereby a private entity can own and operate airports in the US through a long-term, performance-based concession. Currently, there is a small airport in New York that has been privatized under this approach. However, Chicago Midway Airport has just submitted an application to seek privatization under the act. This recent surge in interest in privatizing airports could signal that the public-private partnership market may be a very real and viable alternative to a debt financing.

It is apparent that there are a number of options available to solve the future funding issue. Ultimately, the revenue bond structure may be the best choice for the FAA to consider to solve its upcoming funding gap. The cost of borrowing would not be much greater than borrowing directly from the US Treasury and it will afford much greater flexibility in terms of budgeting. Additionally, the public-private partnership alternative presents a unique opportunity for the FAA to transfer all operating control and risk to the private sector in lieu of a financing.

That concludes my statement, Chairman Mica. Thank you, I appreciate the opportunity to speak here today. I would be pleased to address any questions you or other Members of the Subcommittee might have.